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Management Accounting Budget Preparation Question 7 Obviously, there is a chance that the £85, 000 debt owed by Leatside Ltd will not be paid as they were not secured. This means trade receivables on goods delivered to them with regards to the credit policy of the company may not be paid, as unsecured debts have a lower priority than other debts during the liquidation process of a company. Hence, it will definitely affect the trade receivables balance brought forward. In theory, the amount should be credited in the trade receivables account and debited in the provision for bad debts account, and the difference should be reflected in trade receivable account, albeit with a note at the end.
Question 8
The additional £1 per unit for 20, 000 units for the month of April will more than cover for the overdraft interest rate of 10% that will result due to this new policy. It is safe to consider this new information from Roy Stephenson as one in the month of April there will still be cash received from previous sales that will make the cash balances to be positive in line with the directive of the Managing Director, as well surpass the profit target which had been set at 6%.